

VZCZCXYZ0000
PP RUEHWEB

DE RUEHKB #0975/01 1711428
ZNR UUUUU ZZH
P 201428Z JUN 07
FM AMEMBASSY KHARTOUM
TO SECSTATE WASHDC PRIORITY 7669

UNCLAS KHARTOUM 000975

SIPDIS

DEPT FOR AF/SPG, AF/EPS, EB/IFD, AND EB/ESC
DEPT PLS PASS USAID FOR AFR, AND ALSO PASS USAID

SIPDIS
SENSITIVE

E.O. 12958: N/A

TAGS: [PREL](#) [PGOV](#) [EFIN](#) [ECON](#) [EAID](#) [SU](#)

SUBJECT: Confusion and Criticism Follow Further Changes to Foreign
Currency Laws

REF: KHARTOUM 902

¶1. (U) SUMMARY: On May 29, in an action widely understood as a measure designed to prevent capital flight following tightened U.S. sanctions, the Foreign Exchange Administration of the Central Bank of Sudan announced an amendment to its foreign exchange regulations (reftel). After widespread criticism of this amendment, the law was further altered on June 10, reducing the prepayment margin on imports and adding further clarification to the law. Critical newspaper editorials and public debates followed this June 10 change. Some commentators have boldly argued that the ruling party and political elite imposed these changes to defend their economic interests and ultimately prevent political opposition. Less extreme though more prevalent, most analysts view the volatile foreign currency laws as a direct reaction to tightened U.S. sanctions. END SUMMARY.

¶2. (U) Following widespread criticism of the Foreign Currency Amendment, the Central Bank of Sudan (CBOS) published another change to its foreign currency law on June 10. While upholding most of the previous changes, the memorandum describes a reduction in the prepayment margin on imports from 50 percent to 15 percent for industrial and agricultural materials. The prepayment margin for other import goods will remain at 50 percent of their value. Furthermore, the law clarified that all commercial banks must provide the Foreign Exchange Administration with monthly reports detailing their imports operations. The law upholds the previous amendment which puts limitations on transferring foreign currency to accounts abroad.

¶3. (U) Abbas Hassan Ahmed, in a June 17 editorial in the Sudanese Arabic daily newspaper "Al-Soudani," criticizes the changes to foreign currency law. Acknowledging that the law may combat money laundering, Ahmed argues that the changes will negatively affect the most important areas of the economy. Ahmed contends that there is a direct relationship between the tightened U.S. sanctions and the changes. Ahmed believes that this round of sanctions differs substantially from those in the past because most of the companies on the new list have a direct connection to the ruling party and/or the National Intelligence and Security Service (NISS). According to Ahmed, these sanctioned companies benefit from interaction with the American financial system and will be hurt by the sanctions. He believes that the government changed the foreign currency law to choke any competition, prevent an economic opposition bloc that might be able to access foreign currency, and combat any rising internal economic power. Ahmed states that since these changes occurred, the value of Sudanese currency has dropped and a black market for foreign currency has already emerged.

¶4. (U) Records of the debates in public meetings also illustrate the confusion surrounding the foreign currency law. On June 10, Saud al Brier, the President of the Sudanese Businessmen and Employers Federation, met with Dr. Sabir M. Hassan, Governor of the Central Bank of Sudan (CBOS) and submitted a public memorandum

criticizing the recent foreign exchange regulations regarding imports.

¶5. (U) On June 16, the Banks Association held a public forum about the new foreign exchange regulations, convened by Dr. Hassan. Also in attendance were bank managers, businessmen, and university students. Hatim Abdalla El-Zubair, Secretary General of the Banks Association, opened the session saying that the forum will help address the ambiguity that resulted from the changes.

¶6. (U) Dr. Sabir M. Hassan, Governor of the CBOS, first stated that the amendment does not rule out foreign exchange altogether. He compared the amendments to traffic laws which allow for the freedom of movement within certain parameters. He stated that the Central Bank made the changes to reduce dependency on imports and combat money laundering activities.

¶7. (U) Many participants in the forum reportedly asked Dr. Hassan why the new foreign exchange regulations immediately followed tightened U.S. sanctions on Sudan. He responded that the regulations had no relation to the sanctions. He also dismissed the efficacy of any new restriction put on Sudan, saying that Sudan has become accustomed to living in this state. Hashim Hago, President of the Sudanese Businessmen and Employers Federation, criticized the new regulations and stated that they will only result in further confusion.

¶8. (SBU) COMMENT: The additional changes to foreign currency laws, the public debates, and editorials that followed demonstrate widespread confusion and disapproval of the amendments. According to the reports, most observers see a connection between the foreign currency laws and tightened U.S. economic sanctions. Others view the foreign currency amendments not only as directly related to U.S. sanctions, but also as a move designed to hinder real competition to the businesses of the ruling elite. END COMMENT.

FERNANDEZ